



The accounting officer
Umgindi Local Municipality
P.O Box 33
Barberton
1300

15 December 2011

Ref: 02054REG10-11

Dear Madam

Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Umgindi Local Municipality for the year ended 30 June 2011

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa, section 121(3) of the Municipal Finance Management Act of South Africa (MFMA).

2. We have not yet received the other information that will be included in the annual report with the audited financial statements and have thus not been able to establish whether there are any inconsistencies between this information and the audited financial statements and the reported performance against pre-determined objectives. You are requested to supply this information as soon as possible. Once this information is received it will be read and should any inconsistencies be identified these will be communicated to you and you will be requested to make the necessary corrections. Should the corrections not be made we will amend and reissue the audit report.

3. In terms of section 121(3) (municipality) of the MFMA you are required to include the audit report in the municipality's annual report to be tabled.

4. Until the annual report is tabled as required by section 127(2) of the MFMA, the audit report is not a public document and should therefore be treated as confidential.

5. Prior to printing or copying the annual report which will include the audit report you are required to do the following:

- Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
- The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and

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the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.

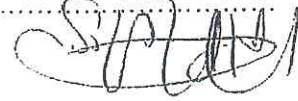
6. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.

7. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely

Signed



Phetego Mokgope
Senior Manager: Mpumalanga

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REPORT OF THE AUDITOR-GENERAL TO THE MPUMALANGA PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE UMJINDI LOCAL MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the accompanying financial statements of the Umjindi Local Municipality, which comprise the statement of financial position as at 30 June 2011, and the statement of financial performance, statement of changes in net assets and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages xxx to xxx.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMFA), and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with the International Standards on Auditing and General Notice 1111 of 2010 issued in Government Gazette 33872 of 15 December 2010. Because of the matters described in the basis for disclaimer of opinion paragraphs, however, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

Property, plant and equipment

4. The municipality could not provide me with sufficient appropriate audit evidence to support the assumptions made when reassessing the useful lives of assets resulting in the restatement of the accumulated depreciation for property, plant and equipment amounting to R39 425 636.
5. I was unable to physically verify property, plant and equipment valued at R5 394 837 to confirm the existence and completeness of these assets, due to limitations placed on the scope of my work by the municipality.
6. The municipality's records did not permit the application of alternative procedures. Consequently, I could not obtain sufficient appropriate audit evidence as to the valuation, existence, rights and completeness of the closing balance of property, plant and equipment amounting to R541 226 935 disclosed in note 5 to the financial statements.

7. A disclaimer of opinion was issued on the prior year financial statements. I was unable to determine the effects of the prior year limitations on the financial statements of the current year.

Revenue

8. The municipality could not provide me with sufficient appropriate audit evidence to support revenue: service charges of R82 357 747. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that all revenue recognised had been properly accounted for. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the accuracy, occurrence, classification, cut-off and completeness of revenue: service charges disclosed in note 24 to the financial statements.
9. A disclaimer of opinion was issued on the prior year financial statements. I was unable to determine the effects of the prior year limitations on the financial statements of the current year.

Expenditure

10. The municipality could not provide me with sufficient appropriate audit evidence to support journal entries of R10 174 624 debited to the DME infrastructure grant. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that all journals had been properly recorded. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the accuracy, occurrence, classification, cut-off and completeness of expenditure disclosed in note 27 to the financial statements.

Investment property

11. The SA Standard of GRAP, GRAP 16 *Investment Property* states that investment property should subsequently be measured at fair value. There was a difference of R5 433 050 between the amount in the asset register and the fair value per the latest valuation roll.
12. A disclaimer of opinion was issued on the prior year financial statements. I was unable to determine the effects of the prior year limitations on the financial statements of the current year.

Unspent conditional grants

13. The municipality could not provide sufficient appropriate audit evidence to support journal entries of R16 565 387 debited to unspent conditional grants. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that all journals had been properly recorded. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the valuation and completeness of unspent conditional grants disclosed in note 18 to the financial statements.

Consumer debtors

14. The municipality could not provide sufficient appropriate audit evidence to support consumer debtors amounting to R26 141 617 as disclosed in note 12 to the financial statements. The municipality's records did not permit the application of alternative procedures to confirm the valuation, classification, completeness and rights of consumer debtors.

Cash and cash equivalents

15. The municipality could not provide sufficient appropriate audit evidence to support bank reconciling item: debit orders amounting to R1 843 772. Consequently I was unable to verify valuation and completeness of cash and cash equivalents disclosed in note 13 of the financial statements. The municipality's records did not permit the application of alternative procedures.

16. A disclaimer of opinion was issued on the prior year financial statements. I was unable to determine the effects of the prior year limitations on the financial statements of the current year.

Undefined correction

17. The municipality could not provide sufficient appropriate audit evidence to support an undefined correction amounting to R2 240 528 (2010: R1 247 868) accounted for in the statement of changes in net assets. There were no satisfactory alternative audit procedures that I could perform to support this correction. Consequently, I did not obtain sufficient appropriate audit evidence to determine which account balances were affected by this error and the extent thereof.

Disclaimer of opinion

18. Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.

Emphasis of matter

19. I draw attention to the matter below. My opinion is not modified in respect of this matter:

Restatement of corresponding figures

20. As disclosed in note 42 to the financial statements, the corresponding figures for 30 June 2010 were restated as a result of an error discovered during 2011 in the financial statements of the municipality at, and for the year ended, 30 June 2010.

Additional matter

21. I draw attention to the matter below. My opinion is not modified in respect of this matter:

Unaudited supplementary schedules

22. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

23. In accordance with the PAA and in terms of General Notice 1111 of 2010 issued in Government Gazette 33872 of 15 December 2010, I include below material non-compliance with laws and regulations applicable to the municipality.

Predetermined objectives

No material findings

Compliance with laws and regulations

Procurement and contract management

24. Written price quotations were not obtained from at least three different prospective suppliers for procurement with a transaction value between R10 000 and R200 000, contrary to Supply Chain Management (SCM) Regulation 17(a) and (c).

Annual financial statements and annual report

25. The financial statements submitted for auditing had not been prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements in capital assets, current assets, liabilities, revenue, expenditure and disclosure items identified by the auditors were subsequently corrected, but the uncorrected material misstatements resulted in the financial statements receiving a disclaimer of opinion.

Expenditure management

26. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained an effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds, as required by section 65(2)(a) of the MFMA.

27. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA.

INTERNAL CONTROL

28. In accordance with the PAA and in terms of General Notice 1111 of 2010 issued in Government Gazette 33872 of 15 December 2010, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the basis for the disclaimer of opinion and the findings on compliance with laws and regulations included in this report.

Leadership

29. Management did not exercise oversight responsibility regarding financial, compliance and related internal controls.

30. Municipal council did not implement effective human resource management to ensure that adequate and sufficiently skilled resources were in place and that performance was monitored.

31. The action plan to address the external audit findings was implemented towards the end of the year under review, as a result it failed to yield the desired results.

Financial and performance management

32. Management did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information was accessible and available to support financial reporting.

33. Management did not implement controls over daily and monthly processing and reconciling of

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transactions.

34. Management did not prepare regular, accurate and complete financial reports that were supported and evidenced by reliable information.

35. Requested information was not available and supplied without any significant delay.

36. The municipality did not have competent individuals who understood the financial reporting framework.

37. The financial statements were subject to material amendments resulting from the audit, as reported above.

38. General information technology controls were not designed to maintain the integrity of the information system and the security of the data.

Governance

39. Management did not ensure that there was an adequately resourced and functioning internal audit unit that identified internal control deficiencies and recommended corrective action effectively.

Auditor-General

Nelspruit

15 December 2011



AUDITOR-GENERAL
SOUTH AFRICA

Accounting to build public confidence

EXPLANATORY NOTE TO THE AUDIT REPORT.

QUALIFICATION PARAGRAPHS

1. Property, plant and equipment

Par 4. The municipality reassessed the useful lives of its assets whereby assets which had zero values in the assets register were given values based on the fair values (market price for similar assets). Based on the new values, depreciation on these assets was calculated and it was back dated to the date when the assets were initially purchased.

Audit finding: Auditor was unable to establish the assumptions made to arrive at the new values of the assets; we could not trace the values included in the assets register to the documentation provided to us or recalculate the new values based on assumptions made. As a result we could not verify the correctness of the accumulated depreciation included in the financial statements

Par 5: Assets included in the assets register could not be physically verified.

Audit finding: we selected assets from the assets register and traced to the floor to verify existence, from the sample selected, assets worth about R100,000.00 Could not be verified. This amount was then projected to the whole population to get a representation of the total assets, and then we arrived at R5m as included in the audit report.

2. Investment property

Par 11: In terms of the GRAP standards, investment property should subsequently be valued at fair value. The accounting policy of the municipality states that investment property is valued using the values included in the latest valuation roll.

Audit finding: we selected assets included in the assets register and traced to the valuation roll to verify consistency between the two documents. We identified differences in some of the assets.

Actions to be taken to address the problem

A. PWC is to meet with Umjindi to reassess the useful lives of its assets whereby assets which had zero values in the assets register were given values based on the fair values (market price for similar assets) by 28 February 2012.

- B. Re-identification of moveable assets by Asset Unit by 28 February 2012.
- C. Investment Property to be redone – information was sent to Audre (PWC) to update the Investment property by 28 February 2012.
- D. The assets register must fit the Assets Framework by 28 February 2012
- E. All Property, Plant Equipment and moveable Assets (Complete Asset Register) must be complete by 15 March 2012.

DISCLAIMER PARAGRAPHS

- 3. Revenue**
Par 8: The accounting system used by the municipality (FINSTEL) was unable to produce a detail report to support the amount of revenue for service charges that is included in the financial statements. We were unable to make selections and perform audit procedures on Service charges amount.
- Actions to be taken**
A. Services charges files from July–November 2011 to be submitted to Internal Audit unit by 13 January 2012 at 12H00.
B. The Internal Audit Unit to audit the work in two weeks,(sample) and submit report on by 27 January 2012.

- 4. Consumer debtors**
The accounting system (FINSTEL) used was unable to produce a detail report to support the amount of consumer debtors included in the financial statements. We were therefore unable to make selections and perform audit procedures on consumer debtors.
- Actions to be taken**
A. Consumer Debtors from July – November 2011 to be submitted to Internal Audit Unit on 13 January 2012 @12 h00.
B. The Internal Audit Unit to audit the work in two weeks,(sample) and submit report by 03 February 2012.

- 5. Expenditure**
Par 10: The municipality processed journals to account for expenditure incurred against the DME grant. These journals were not supported by valid documentation to support the reasons for the journals processed, we could not substantiate why the journals were passed due to lack of documentation. Due to lack of documentation we were unable to assess the impact of these journals on other account balances/line items in the financial statements.
- Actions to be taken**
A. All journals DME and MIG from July –November 2011 must be checked if they have supporting documents and proper descriptions. Journals must not be processed unless corrections are done.

- B. All journals must be submitted to Internal Audit unit on 10 February 2012.
- C. Internal Audit must audit all the journals as submitted and submit report by 24 February 2012.

6. Unspent conditional grants
 This is also linked to supporting documentation for journals processed in accounting for unspent conditional grant. Refer to no.5 for explanation.

- Actions to be taken**
- A. All journals MIG and DME, from July–November 2011 must be checked if they have supporting documents and proper descriptions. Journals must not be processed unless corrections are done.
 - B. All journals must be submitted to Internal Audit unit on 10 February 2012.
 - C. Internal Audit must audit all the journals as submitted on 10 February 2012.
 - D. Internal Audit must audit all the journals as submitted and submit report by 24 February 2012.

7. Cash and cash equivalents
 Bank reconciliation was audited and we found that reconciling item for debit orders amounting to R1.8m could not be substantiated by supporting documents. This has posed limitation to our scope of audit.

Actions to be taken

- A. Bank reconciliation must completed dating back for 2009/2010, 2010/2011. All items must be cleared.
- B. Bank reconciliation must be submitted on 25 February 2012 to Internal Audit Unit .
- 8. Internal Audit must audit all the journals as submitted and submit report by 25 March 2012.

9. Undefined correction
Statement of changes in net assets was audited and we found there is an amount of R2.2m (2010: R1.2m) classified as undefined correction. This amount could not be substantiated by supporting documents. We were unable to determine the impact this amount has on other line items and account balances in the financial statements. Based on enquires made to other auditors and accountants it was discovered that this might be the difference between trial balance on the accounting system and trial balance on caseware (programmed used to prepare financial statements).

ACTIONS TO BE TAKEN

- Procure a caseware for Umjindi by January 2012 through Deviation-18 January 2012.
- Undergo train between 1-8 February 2012.
- Trace undefined correction 2009/2010, 2010/2011, by 15 March 2012.
- Umjindi Municipality to have prepared an interim financial statement by 20 March 2012.

Other issues to addressed

- The organogram to be discussed with finance department as matter of urgency to sort out the reporting channels for all staff in Finance Department by 20 January 2012.(Implementation of the Organogram).

- Conversion from IMFO to GRAP was not done properly, service providers to be appointed to assist Finance officials with GRAP standards and be on site for the whole year from January 2012-December 2012, with proper terms of references. The appointment of the service provider/s will be on the discretion of the CFO in consultation with MM.
- Sebata to complete the conversion from Finstel to Sebata FMS.
- The opening and closing of cashiers must be revisited- Item to Council by January 2012.

- The Finance Department must purchase caseaware in January 2012 and be trained and prepare Interim Financial Statements for mid of March 2012.
- Internal Audit to be beefed up with extra personnel for auditing all these matters raised in AG report before interim audit.
- Finance staff to be educated in their reporting lines and to take their functions very serious as it impact on the whole functioning of the municipality.
- CFO raised the issue that for the municipality to be ready to prepare financial statements, they should have been trained a year ago. However the MM disagrees with that statement and emphasize that the municipality must do the interim financial statements and all the audit queries must cleared by end of March 2012.
- The meeting resolved that the CFO and MM must have bilateral consultation meetings to discuss the action plan and other finance related issues on a regular basis.
- Next meeting : 23 January 2012 at 8H00.
- Meeting adjourned at 12H08

AUDIT CONCLUSION

Only one opinion has to be expressed on the overall financial statements, although the municipality had two qualification areas(point 1-2), areas of scope limitation (point 3-8) was pervasive in nature and in amount, therefore a DISCLAIMER OPINION is issued.